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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 007284

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TAGS: [ECON](#) [ENRG](#) [EFIN](#) [EINV](#) [ETRD](#) [ELAB](#) [PGOV](#) [CH](#)
SUBJECT: (C) WHITHER NDRC? POST-PARTY CONGRESS RUMORS
INDICATE SHAKE-UP MAY BE COMING FOR TOP ECONOMIC
POLICYMAKING BODY

REF: BEIJING 1528

Classified By: (C) CLASSIFIED BY MINISTER COUNSELOR FOR ECONOMIC AFFAIR
S ROBERT LUKE; REASON 1.4 (B) AND (D).

SUMMARY

1. (C) Post-Party Congress rumors and speculation by Embassy contacts indicate that the National Development Reform Commission (NDRC), China's top economic policymaking body, may soon undergo significant structural changes in the run-up to the March 2008 session of the National People's Congress (NPC). The most noteworthy proposed change would be the establishment of an energy ministry, stripping the NDRC of its energy policy function. There also continues to be dissatisfaction with the NDRC's inability to rein in overheating investment in the provinces, and the State Council issued a statement on November 21, which reiterated that all new projects must meet selected criteria. Interestingly, we have heard few personnel rumors on who will replace NDRC Chairman Ma Kai, leaving open the possibility that no names have been put forward because it is unclear what the NDRC will look like after the March NPC session. Former NDRC Vice Chairman Chen Deming, previously a leading candidate to take over at NDRC, started his new job as Minister of Commerce on November 28. Despite the uncertainty, we have yet to hear a rumor suggesting that the NDRC will be dismantled. END SUMMARY.

UNCERTAINTY IN THE AIR

2. (C) Speculation has been rife since the 17th Party Congress in October that the NDRC, China's top economic policymaking body will undergo significant changes before the March 2008 NPC session. The NDRC controls China's macroeconomic, financial, investment, and energy policies among others and is the primary architect of the Central Government's Five-Year Plan. NDRC Chairman Ma Kai introduced China's 11th Five-Year Plan at the March 2006 NPC session, which called for slowing economic growth and improved energy efficiency. Ma likely will be shifted to a position as State Councilor in the wake of the Party Congress.

3. (C) With Ma departing and reports surfacing that the NDRC may undergo reforms or be broken up into smaller agencies in 2008, a NDRC official told Econ M/C on November 28 that she expects big changes before the March 2008 session of the NPC. The most important issue to resolve will be whether or not China establishes an energy ministry, she said.

RUMORS SWIRL OVER POSSIBLE ENERGY MINISTRY

14. (C) Our conversations with local contacts have yielded a variety of opinions on the veracity of the reports, but all agree that the NDRC's primacy on energy issues is at stake. The local representative of an international energy NGO told us that the decision to establish an energy ministry has already been made. In fact, Beijing is searching for a building to house the new ministry, said the NGO representative. A Chinese Government economic researcher agreed that a final decision on establishment of the ministry has been reached, but claimed it will be formed after the Olympics in 2009. The delay is intended to spare the Chinese Government the distraction and controversy of establishing and staffing a new ministry during the run-up to the Olympics, according to the researcher.

15. (C) A correspondent for an international newswire service, however, told us that Chinese Government insiders involved in the debate give the ministry only a 60-70 percent chance of being established. A senior executive with an international energy company was even more pessimistic, stating that the ministry had less than a fifty percent chance of making it. A more likely outcome is the establishment of a new independent energy bureau that falls short of ministerial status, said the executive. The international correspondent said that government proponents of a new ministry oppose a compromise given the NDRC's recent success in neutering a similar body, the State Council's Energy Office, formed in 2005. NDRC Chairman Ma Kai opposed the creation of the office, but subsequently maneuvered the Energy Office under the NDRC's authority, stripping it of resources and responsibility, said the correspondent.

16. (C) An international energy consultant with two decades of

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experience in China said that debating whether an energy ministry or other type of organization will be established misses the point. The real issue is what power and responsibilities the new entity will possess. The consultant said that this debate within the Chinese Government has become very bitter and personal. The argument hinges on who will possess energy pricing and project approval authority. The NDRC is fighting to retain those responsibilities while proponents of a new energy body claim that it must have them to be effective.

17. (C) The consultant said that energy ministry supporters point to China's State Electricity Regulatory Commission (SERC) as an example of an energy agency without real power because it lacks those tools. SERC officials state that needed power sector reforms are stalled because of NDRC's control of power rates and power sector infrastructure development. Indeed, at a recent Embassy function, a SERC official minced no words to Econ M/C in describing SERC's frequent disagreements with NDRC Vice Chairman Zhang Guobao (in charge of energy affairs at NDRC until Chen Deming took over the portfolio in 2006). The international energy consultant said that the NDRC clearly recognizes that if it loses such pricing and project approval authority, it no longer controls China's energy policy.

FRUSTRATION OVER MACROECONOMIC CONTROLS

18. (C) Despite its central policy formulation role, the NDRC continues to make little progress towards reining in overheating investment and slowing growth in China's provinces (reftel). NDRC Chairman Ma said in March that GDP growth would not exceed 8 percent in 2007, but as the year comes to a close, annual growth will be closer to 12 percent. The 11th Five-Year Plan also emphasized the importance of energy efficiency and promised to decrease energy use per unit of GDP by 20 percent during the five years. China fell woefully short of its target in the first year of the plan in 2006, however, and NDRC has not been able to convince

provincial and municipal governments to strengthen their energy efficiency measures. Local government officials instead remain more focused on economic growth and employment creation in order to maintain social stability and earn promotions within the Party and have therefore virtually ignored NDRC edicts in recent years.

¶9. (C) On November 21, China's State Council issued yet another statement urging local governments to ensure that all new investment projects have been properly authorized (by NDRC) and meet land-use, energy efficiency, and environmental protection criteria. The statement described the current pace of investment growth as "too rapid" and characterized overinvestment as a "prominent problem" that threatens economic stability. The November 21 statement followed the China Banking Regulatory Commission's recent credit freeze, which aims to prevent overheating by tightening credit. Media reports and Embassy contacts have repeatedly stated in recent months that the NDRC appears powerless to implement macroeconomic control measures. (Comment: Whether the NDRC is still capable of slamming the brakes on investment as it has on occasion in the past is a subject of some debate among western economists. At least one prominent Hong Kong analyst believes NDRC still has that ability should it choose to use it. End Comment.)

PERSONNEL RUMORS REVEAL LITTLE

¶10. (C) Against this backdrop, our contacts (including those at NDRC) say they have no idea who will be the next Chairman of NDRC. While media reports have been rife with information about who will replace various Vice-Premiers and Ministers, we find it noteworthy that there are few if any rumors on who will succeed Ma as NDRC Chairman, leaving us to speculate that the NDRC may be streamlined into a smaller entity by splitting off several of its existing functions into independent ministries. At the very least, whether NDRC will undergo significant reforms before the March 2008 NPC session may be the subject of active debate. Rumors currently in circulation are that China may establish separate industrial and water ministries in addition to energy.

¶11. (C) Former NDRC Vice Chairman Chen Deming, once considered a leading candidate to become NDRC Chairman or the first minister of a new energy ministry, started his job as Minister of Commerce on November 28. Chen replaces Bo Xilai at the Ministry of Commerce (MOFCOM). Vice Chairman Zhang

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Guobao remains at NDRC but likely will retire in 2009, according to a NDRC official. NDRC officials told us that they changes effectively elevate Vice Chairman Zhu Zhixin to second in command at NDRC.

COMMENT

¶12. (C) With important future considerations at play, including first and foremost China's energy policy, but also the government's ability to manage its economy going forward, the role of NDRC remains central to China's economic policy efforts. That said, given the apparent uncertainty surrounding NDRC in the weeks following the Party Congress, we see the possibility of significant changes on the horizon. At the same time, we have yet to hear a rumor suggesting that the NDRC will be dismantled, and there remains the distinct possibility that the agency will survive intact and continue to play the predominant economic policymaking role.

RANDT